

Company Registration No. 5515075 (England and Wales)

BRITISH COUNTRY INNS PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 27 JANUARY 2007

BRITISH COUNTRY INNS PLC

COMPANY INFORMATION

Directors

P J Mathews
A J Miller
M W Sherwood
D T Udell

Secretary

Athenaeum Secretaries Ltd

Company number

5515075

Registered office

Ampney House
Falcon Close
Quedgeley
Gloucester
GL2 4BR

Auditors

Saffery Champness
Lion House
Red Lion Street
London
WC1R 4GB

BRITISH COUNTRY INNS PLC

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BRITISH COUNTRY INNS PLC

CHAIRMAN'S STATEMENT

I am pleased to enclose the Report and Accounts for your Company for the year ended 27th January 2007 and to invite you to attend the Company's Annual General Meeting to be held at the offices of Smith & Williamson Limited, 25 Moorgate, London EC2R 6AY at 11.00 on Friday 15th June 2007.

Progress

It has been an extremely busy year for your Company. The Company started the year in February 2006 with no pubs, but made its first acquisition on 28th April 2006 and had purchased seven additional houses by mid October. I list below some of the key points covered this year:

- Eight pubs have been purchased (seven freehold and one long leasehold) at a total cost (including refurbishment, fees, stamp duty etc.) of £6.26m.
- Extensive refurbishments have been carried out at four houses (Kings Arms, Lion, Wooden Fender, and Plough Inn).
- In addition work started at the George Inn (formerly the Nettlebridge Inn) in January and was completed in February 2007.
- Refurbishment at the Bourne Valley Inn was completed in May 2007.
- As each house has been purchased, work has been carried out and/or systems put in place to meet the requirements of the Health & Safety Act and other statutory legislation.
- An extensive marketing exercise at the Walhampton Arms resulted in dramatic sales growth and there was a remarkable response to the Walhampton Club promotion.
- Successful recruitment of new management and/or replacement of those we inherited has had positive results.

Key Performance Indicators

- An increase in the Company's asset value as indicated in the valuation below.
- Sales growth in houses acquired and redeveloped.
- Gross profit margin at the upper end of the industry norm.
- Staff costs are in line with industry norms.

Profitability

Total house trading profit (before central costs, depreciation and interest) was £111,193 representing 6.4% of turnover with individual houses trading at up to 14.4% - a creditable result bearing in mind that some of the pubs had as little as 15 weeks under our management during the period under review. The total number of pub weeks trading was only 204 against a possible maximum of 416 in a full year. Despite the disruption caused by acquisition and refurbishment, six of the eight houses were trading profitably by the year end.

An excellent gross profit margin of 64.9% has been achieved in the period despite the fact that we had to absorb some higher stock costs than we have now been able to negotiate. We continue to negotiate with our suppliers as each pub is added to maximise our buying power.

In the year under review the Company has had to absorb central costs (including exceptional expenses amounting to £64,600) for a full twelve months although trading did not begin until three months into the year.

I believe that the quality and trading styles of our houses means that we are in a strong position to meet the challenges of local competition, increased interest rates and the introduction of non-smoking legislation in the forthcoming year. As we have refurbished houses we have re-opened as non-smoking pubs to a positive response from most customers.

Trading in the first quarter of the current financial year is encouraging and shows a positive improvement as a result of our capital investments.

BRITISH COUNTRY INNS PLC

CHAIRMAN'S STATEMENT

Post balance sheet activity

As the Company is now fully invested using shareholders' funds we have agreed a loan facility of £3m with our bank to provide cash for additional acquisitions. We purchased the Red Lion at Great Kingshill, Buckinghamshire on 2nd May 2007. The house is undergoing refurbishment and will re-open again in June. Solicitors have been instructed regarding a further acquisition. This loan facility will enable the Company to acquire one more pub (which we are now actively seeking) taking our estate to eleven houses in all.

Valuation

Following an independent valuation by HLL Humberts Lesiure, the value of your Company's estate is £6.9m. Applying a lotting premium (the added benefit of selling a group of pubs) of 10%, Humberts assess the value at £7.59m. As total funds raised were £7.5m, this would indicate that in the period under review we have managed to recover the launch costs and capital investment in our pubs.

Prospects

The immediate strategy of the Company is to bring the estate up to 10 or 11 houses. The investments made in the refurbishment of the estate this year should enable management to consider its trading position at each site thereby building shareholder value.

Risks and Uncertainties

The Company views the following factors as risks and uncertainties in the future:

- The effect of smoking legislation on 1st July – this is perceived as being low risk and will probably have a positive effect on the Company's houses.
- Possible changes in the economy as a result of increasing interest rates and the subsequent effect on disposable income.
- Licensing legislation – factors beyond our control if the Government or local authorities change the current licensing laws. The Company is not currently aware of any proposals.

Environment

The Company recognises the importance of its environmental responsibilities. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption wherever possible.

Management and Employees

On your behalf I would like to thank the operational management and all our licensees and staff. They have all joined us as new employees, mainly as a result of the transfer of their employment, which can be a stressful experience. They have responded positively to new ownership, management and procedures, providing enthusiastic support and an underlying strength for the future. Your Board feels that the Company has a transparent and appropriate policy for management and employee remuneration.

Your board intends to offer share options to senior management (excluding directors) under an Enterprise Management Incentive Scheme. It is intended to focus the scheme on operational management and licensees, particularly towards the end of the EIS qualifying period, when shareholders may be considering a sale of the Company.



A J Miller
Chairman

18 May 2007

BRITISH COUNTRY INNS PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 27 JANUARY 2007

The directors present their report and financial statements for the year ended 27 January 2007.

Principal activities and review of the business

The principal activity of the company is the ownership and operation of a portfolio of public houses. A review of the business is given in the Chairman's statement.

Results and dividends

The results for the year are set out on page 7.

Directors

The following directors have held office since 1 February 2006:

P J Mathews
A J Miller
M W Sherwood
D T Udell

Directors' interests

The directors' interests in the shares of the company were as stated below:

	Ordinary Shares of 50p each	
	27 January 2007	1 February 2006
P J Mathews	35,660	35,660
A J Miller	27,940	27,940
M W Sherwood	-	-
D T Udell	35,660	35,660

	'A' Ordinary Shares of 50p each	
	27 January 2007	1 February 2006
P J Mathews	340	340
A J Miller	60	60
M W Sherwood	-	-
D T Udell	340	340

BRITISH COUNTRY INNS PLC

DIRECTORS' REPORT (continued) FOR THE YEAR ENDED 27 JANUARY 2007

Creditor payment policy

The company's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

Auditors

Saffery Champness were appointed auditors to the company and in accordance with section 385 of the Companies Act 1985, a resolution proposing that they be re-appointed will be put to the Annual General Meeting.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the directors are aware, there is no relevant audit information (as defined by Section 243ZA of the Companies Act 1985) of which the company's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make him or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



D T Udell

Director

18 May 2007

BRITISH COUNTRY INNS PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRITISH COUNTRY INNS PLC

We have audited the financial statements on pages 7 to 16. These financial statements have been prepared in accordance with the accounting policies set out therein.

Respective responsibilities of the directors and auditors

As described in the statement of directors' responsibilities on page 4, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

BRITISH COUNTRY INNS PLC

**INDEPENDENT AUDITORS' REPORT (continued)
TO THE MEMBERS OF BRITISH COUNTRY INNS PLC**

Opinion

In our opinion:

the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 27 January 2007 and of its loss for the year then ended; and

the financial statements have been properly prepared in accordance with the Companies Act 1985; and

the information given in the directors' report is consistent with the financial statements.



Saffery Champness

18 May 2007

Chartered Accountants
Registered Auditors

Lion House
Red Lion Street
London
WC1R 4GB

BRITISH COUNTRY INNS PLC

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 27 JANUARY 2007**

		27 January 2007 £	31 January 2006 £
Turnover	2	1,730,723	-
Cost of sales		(1,619,530)	-
Gross profit		<u>111,193</u>	-
Administrative expenses		(479,652)	(2,500)
Operating loss	3	(368,459)	(2,500)
Other interest receivable and similar income		<u>101,309</u>	-
Loss on ordinary activities before taxation		(267,150)	(2,500)
Tax on loss on ordinary activities	4	<u>-</u>	-
Loss on ordinary activities after taxation	10	<u><u>(267,150)</u></u>	<u><u>(2,500)</u></u>

The profit and loss account has been prepared on the basis that all operations are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

The notes on pages 10 to 16 form part of these financial statements.

BRITISH COUNTRY INNS PLC**BALANCE SHEET
AS AT 27 JANUARY 2007**

		2007		2006	
	Notes	£	£	£	£
Fixed assets					
Tangible assets	5	6,202,785			-
Current assets					
Stocks	6	57,119		-	
Debtors	7	51,162		-	
Cash at bank and in hand		717,146		293,750	
		<u>825,427</u>		<u>293,750</u>	
Creditors: amounts falling due within one year	8	<u>(376,908)</u>		<u>(283,750)</u>	
Net current assets		<u>448,519</u>		<u>10,000</u>	
Total assets less current liabilities		<u>6,651,304</u>		<u>10,000</u>	
Capital and reserves					
Called up share capital	9	3,744,084		12,500	
Share premium account	10	3,176,870		-	
Profit and loss account	10	<u>(269,650)</u>		<u>(2,500)</u>	
Shareholders' funds - equity interests	11	<u>6,651,304</u>		<u>10,000</u>	

The notes on pages 10 to 16 form part of these financial statements.

The financial statements were approved by the board on 18 May 2007



D T Udell
Director

BRITISH COUNTRY INNS PLC**CASH FLOW STATEMENT
FOR THE YEAR ENDED 27 JANUARY 2007**

		27 January		31 January	
		2007		2006	
	Notes	£	£	£	£
Net cash (outflow)/inflow from operating activities	14		(328,117)		281,250
Returns on investments and servicing of finance					
Interest received		<u>101,309</u>		<u>-</u>	
Net cash inflow/(outflow) for returns on investments and servicing of finance			101,309		-
Capital expenditure					
Payments to acquire tangible assets		<u>(6,258,250)</u>		<u>-</u>	
Net cash outflow for capital expenditure			<u>(6,258,250)</u>		<u>-</u>
Net cash (outflow)/inflow before financing			(6,485,058)		281,250
Financing					
Issue of ordinary share capital		<u>6,908,454</u>		<u>12,500</u>	
Net cash inflow from financing			<u>6,908,454</u>		<u>12,500</u>
Increase in cash in the year	15, 16		<u><u>423,396</u></u>		<u><u>293,750</u></u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 27 JANUARY 2007

1 Accounting policies

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

1.2 Turnover

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

1.3 Tangible fixed assets and depreciation

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Buildings	75 years straight line
Long Leasehold	Over the term of the lease
Fixtures, fittings & equipment	10-20%

Freehold land is not depreciated.

1.4 Stock

Stock is valued at the lower of cost and net realisable value.

1.5 Deferred taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between taxable profits and results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

BRITISH COUNTRY INNS PLC**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 27 JANUARY 2007**

3	Operating loss	2007	2006
		£	£
	Operating loss is stated after charging:		
	Depreciation of tangible assets	55,465	-
	Auditors' remuneration	12,000	2,500
		<u> </u>	<u> </u>
4	Taxation	2007	2006
		£	£
	Current tax charge	-	-
		<u> </u>	<u> </u>
	Factors affecting the tax charge for the year		
	Loss on ordinary activities before taxation	(267,150)	(2,500)
		<u> </u>	<u> </u>
	Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30.00% (2006: 30.00%)	(80,145)	(750)
		<u> </u>	<u> </u>
	Effects of:		
	Depreciation add back	16,999	-
	Tax losses carried forward	63,146	750
		<u> </u>	<u> </u>
		80,145	750
		<u> </u>	<u> </u>
	Current tax charge	-	-
		<u> </u>	<u> </u>

BRITISH COUNTRY INNS PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 27 JANUARY 2007**

5 Tangible fixed assets

	Buildings	Long Leasehold	Fixtures, fittings & equipment	Total
	£	£	£	£
Cost				
At 1 February 2006	-	-	-	-
Additions	5,382,374	193,141	682,735	6,258,250
	<u>5,382,374</u>	<u>193,141</u>	<u>682,735</u>	<u>6,258,250</u>
At 27 January 2007	5,382,374	193,141	682,735	6,258,250
	<u>5,382,374</u>	<u>193,141</u>	<u>682,735</u>	<u>6,258,250</u>
Depreciation				
At 1 February 2006	-	-	-	-
Charge for the year	30,830	1,153	23,482	55,465
	<u>30,830</u>	<u>1,153</u>	<u>23,482</u>	<u>55,465</u>
At 27 January 2007	30,830	1,153	23,482	55,465
	<u>30,830</u>	<u>1,153</u>	<u>23,482</u>	<u>55,465</u>
Net book value				
At 27 January 2007	5,351,544	191,988	659,253	6,202,785
	<u><u>5,351,544</u></u>	<u><u>191,988</u></u>	<u><u>659,253</u></u>	<u><u>6,202,785</u></u>

6 Stocks

	2007	2006
	£	£
Finished goods and goods for resale	57,119	-
	<u>57,119</u>	<u>-</u>

7 Debtors

	2007	2006
	£	£
Other debtors	6,085	-
Prepayments and accrued income	45,077	-
	<u>51,162</u>	<u>-</u>

BRITISH COUNTRY INNS PLC**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 27 JANUARY 2007**

8	Creditors: amounts falling due within one year	2007	2006
		£	£
	Trade creditors	177,764	-
	Taxes and social security costs	100,657	-
	Other creditors	9,323	281,250
	Accruals	89,164	2,500
		<u>376,908</u>	<u>283,750</u>
		<u><u>376,908</u></u>	<u><u>283,750</u></u>
9	Share capital	2007	2006
		£	£
	Authorised		
	20,000,000 Ordinary Shares of 50p each	10,000,000	10,000,000
	1,000 'A' Ordinary Shares of 50p each	500	500
		<u>10,000,500</u>	<u>10,000,500</u>
		<u><u>10,000,500</u></u>	<u><u>10,000,500</u></u>
	Allotted, called up and fully paid		
	7,486,687 Ordinary shares of £0.50 each, paid up to 12.5 pence per share	3,743,991	12,407
	740 'A' Ordinary shares of £0.50 each, paid up to 12.5 pence per share	93	93
		<u>3,744,084</u>	<u>12,500</u>
		<u><u>3,744,084</u></u>	<u><u>12,500</u></u>

The company issued 7,387,427 ordinary shares of £0.50 each at £1.00 per share between 27 February 2006 and 1 June 2006. The premium arising on issue has been credited to the share premium account less issue costs of £566,474.

The ordinary shares of £0.50 each and the 'A' ordinary shares of £0.50 each rank pari passu except for rights to income and capital where, if the returns are in excess of a specified Initial Return as detailed in the Articles of Association of the Company, 75% of any excess will be due to the holders of ordinary shares of £0.50 each in proportion to their holdings of those shares and 25% of any excess will be due to the holders of ordinary 'A' shares of £0.50 each in proportion to their holdings of those shares.

BRITISH COUNTRY INNS PLC**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 27 JANUARY 2007****10 Statement of movements on reserves**

	Share premium account £	Profit and loss account £
Balance at 1 February 2006	-	(2,500)
Retained loss for the period	-	(267,150)
Premium on shares issued during the period	3,176,870	-
	<u>3,176,870</u>	<u>-</u>
Balance at 27 January 2007	<u>3,176,870</u>	<u>(269,650)</u>

11 Reconciliation of movements in shareholders' funds

	2007 £	2006 £
Loss for the financial year	(267,150)	(2,500)
Proceeds from issue of shares	6,908,454	12,500
	<u>6,641,304</u>	<u>10,000</u>
Net addition to shareholders' funds	6,641,304	10,000
Opening shareholders' funds	10,000	-
	<u>6,651,304</u>	<u>10,000</u>
Closing shareholders' funds	<u>6,651,304</u>	<u>10,000</u>

12 Directors' emoluments

	2007 £	2006 £
Emoluments for qualifying services	<u>158,372</u>	<u>-</u>

BRITISH COUNTRY INNS PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 27 JANUARY 2007**

13 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

	2007	2006
	Number	Number
Directors	4	4
Operation of public houses	107	-
	<u>111</u>	<u>4</u>

Employment costs

	£	£
Wages and salaries	753,346	-
Social security costs	65,602	-
	<u>818,948</u>	<u>-</u>

14 Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	2007	2006
	£	£
Operating loss	(368,459)	(2,500)
Depreciation of tangible assets	55,465	-
Increase in stocks	(57,119)	-
Increase in debtors	(51,162)	-
Increase in creditors within one year	93,158	283,750
Net cash (outflow)/inflow from operating activities	<u>(328,117)</u>	<u>281,250</u>

15 Analysis of net funds

	1 February	Cash flow	Other non-	27 January
	2006	cash flow	cash changes	2007
	£	£	£	£
Net cash:				
Cash at bank and in hand	293,750	423,396	-	717,146
Net funds	<u>293,750</u>	<u>423,396</u>	<u>-</u>	<u>717,146</u>

BRITISH COUNTRY INNS PLC

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 27 JANUARY 2007**

16 Reconciliation of net cash flow to movement in net funds	2007	2006
	£	£
Increase in cash in the year	423,396	293,750
Movement in net funds in the year	<u>423,396</u>	<u>293,750</u>
Opening net funds	293,750	-
Closing net funds	<u><u>717,146</u></u>	<u><u>293,750</u></u>